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Citation for final published version:

Editorial Team, WER 2000. Property markets. Welsh Economic Review 12 (1), p. 15. 10.18573/wer.249 file

Publishers page: <http://dx.doi.org/10.18573/wer.249>
<<http://dx.doi.org/10.18573/wer.249>>

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Welsh Economic Review

Volume 12.1 Spring 2000

Produced in association with



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ISSN 0965-2450

The *Welsh Economic Review* is produced twice yearly, by the Welsh Economy Research Unit (WERU) at Cardiff Business School. The aim of the *Review* is to provide an authoritative and objective analysis of the Welsh economy in a manner that promotes understanding and informs decision-making. The 'core' section of the *Review* is written by members of WERU, with feature articles contributed by academics or practitioners within or outside Wales. The *Review* is circulated widely within Wales, to both private and public sector organisations, including the education sector and the National Assembly.

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Authors should send papers for potential publication in the *Welsh Economic Review* to the Editor at the address given below, preferably via e-mail in a Word for Windows format. Papers are welcome on any topic that would be of general interest to the readership, and should be written in a style suitable for non-specialist readers. Papers should be approximately 3,000-4,000 words and any graphs or figures should be accompanied by the underlying data to allow reproduction.

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Property Markets

Many of the largest mortgage lenders had forecasted house price inflation to be in a range of 4-5% during 1999. These forecasts have proved to be over modest. For example, the Halifax has now estimated that the annual rate of house price inflation in the UK for 1999 was 11%, up from 4.3% in 1998. The first quarter of 1999 saw a modest increase of 0.5%, with successively higher increases in the second and third quarters of 2.7% and 4.4% respectively, and then 3.4% inflation in the final quarter. The Royal Institute of Chartered Surveyors reported 'booming' conditions in national housing markets during the Spring, evidenced by an increase in the take-up of bridging loans, and with some properties being speculatively taken off the market in the hope of higher prices in the short term. The Institute also reported that, during April of last year, 52% of surveyors in the UK had seen property price increases, this figure being up 14 percentage points on those in March. The strongest price increases last year were seen in London and the South East. The Halifax reported that national increases during the third quarter were the largest since 1988. This noted, recent house price inflation falls far short of the levels seen in the late 1980s where increases in some areas peaked at 34% per annum. How far the upward

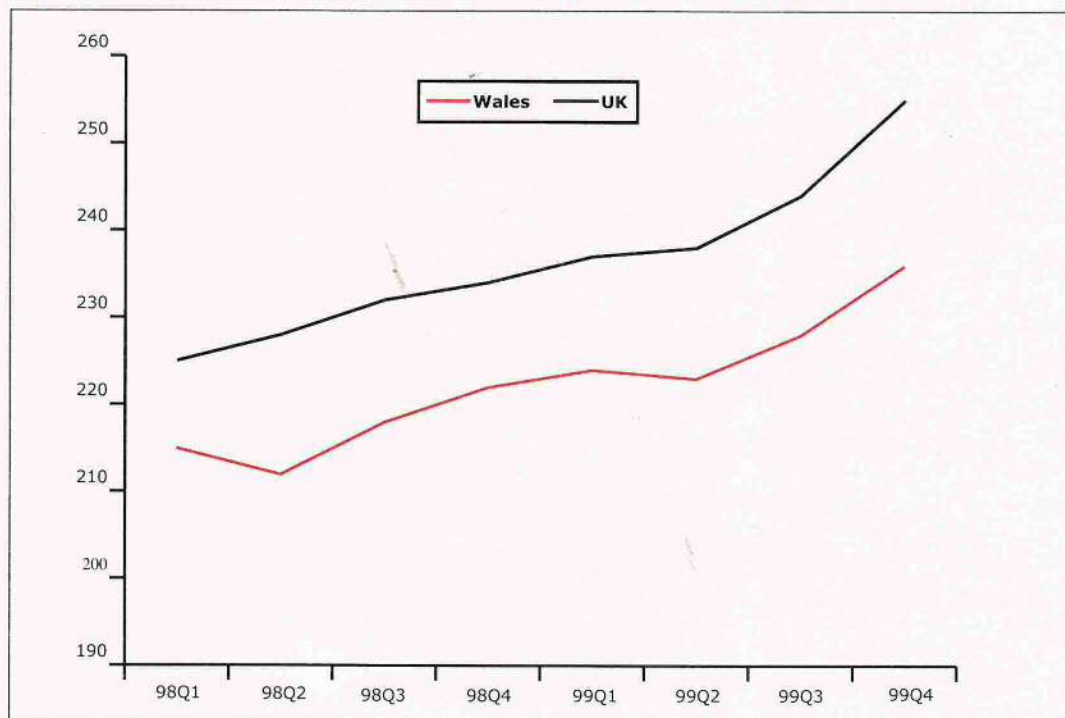
trend in prices will be sustainable this year is uncertain. During April mortgage interest tax relief will be removed, and there is still some prospect of further increases in interest rates. On the positive side the typical ratio of standardised UK house prices to average earnings (the house price earnings ratio) remains comparatively low, and consumer and business confidence remains fairly high.

House price increases in Wales continue to closely shadow national prices. For example, the Halifax reported a 7.2% average increase in house prices in Wales during 1999. In Wales, as in other areas of the UK, markets have benefited from low interest rates, and more importantly, the receding threat of any downturn in economic prospects during the year. Figure 3 shows the rising trend in Welsh house prices through the year. However, housing market performance in Wales remains uneven. For example, figures produced by the Principality Building Society showed that during 1999, house prices increased by an average of 10% in Cardiff, compared to almost 5% in Wrexham, and less than 4% in Swansea and Bangor. Whilst other parts of Wales, such as the Amman Valley, the Principality reported that house prices had fallen during last year.

New research from the Economic and Social Research Council (ESRC) 'Cities' Programme examined the role of housing in city economic performance, using data from the British Household Panel Survey, relating to London and the South East. The research team concluded that low income/low skilled households were less mobile than higher income households, which were able to move to better quality housing and locations. Since travel-to-work distances were shorter for low income households, this group had suffered disproportionately from losses of city manufacturing jobs. This in turn had the effect of reducing the desirability of inner city locations, resulting finally in divergence between cities and suburban/rural locations.

In Cardiff, council housing developments in Ely and Llanrumney, built originally to provide accommodation for steel and dock workers in the City, were estimated to have male unemployment rates two thirds higher than the Cardiff County average in 1997. Meanwhile, the inner city terraced houses of Grangetown and Adamsdown, while having the potential to experience some spill-over benefits from the gentrification of neighbouring areas such as Roath and Cathays, also remain areas of high unemployment.

Figure 3 House Prices Index. All Houses-All Buyers. Seasonally Adjusted, 1983=100.



Source: Halifax Building Society